Peru
CRT-3
August 22, 2019
Region: Latin America
Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

• Peru, a CRT-3 country, has a moderate level of economic, political, and financial system risk.

• GDP in 2018 was 4.0% and is expected to grow 4.0% in 2019 and remain at that level over the medium term. Growth will be driven by domestic consumption and a rebound in manufacturing. Inflation decreased to 1.3% in 2018 and is forecast to remain between 2.0% and 2.5% over the next few years.

• The map depicts the countries in Central America, South America and the Caribbean that AM Best evaluates. The majority of Latin American countries are categorized as CRT-3, CRT-4, or CRT-5.

Regional Summary: Latin America

• Economic growth has slowed in Argentina, Mexico and Brazil—some of the region’s major economies—due to escalating trade tensions and volatile currency and commodity markets. The impact of these factors will be amplified by country-specific vulnerabilities. Additionally, the potential for stricter trade protectionist policies brings uncertainty to the growth outlook.

• Modest growth and tame inflation levels has allowed several of the region’s central banks to hold interest rates at relatively low levels—the notable exception being Mexico’s central bank, which has kept interest rates elevated on concerns over inflation and currency weakness.

• Structural reforms are needed to diminish reliance on unsustainable social programs and the resulting higher levels of public debt. Debt reform is also needed, to address growing corruption and its effects on economic potential.

• The ongoing humanitarian crisis in Venezuela has seen a significant outflow of refugees seeking asylum in neighboring countries, which has the potential to strain resources in neighboring host countries.
Economic Risk: Moderate

- Peru depends largely on mineral and metal exports, and foodstuffs as imports. Peru is also a large energy producer with abundant natural resources.
- The country is vulnerable to changes in world prices and shifts in global demand and trade policy. Slowing global growth will be a headwind to the country.
- Despite sustained economic growth, poverty remains widespread and the distribution of wealth is unequal, which have led to social unrest. Poverty levels are high but have declined in recent years. More than 20% of the population lives in poverty, mostly in rural areas, compared to more than half in 2005.
- Corruption scandals and political uncertainty have harmed business sentiment, which has resulted in a delay in some investment projects. However, investment has been relatively resilient.

Political Risk: Moderate

- President Pedro Pablo Kuczynski resigned in May 2018 due to his involvement in a corruption scandal. New President Martín Vizcarra survived a vote of confidence in June 2019, and is likely to be investigated in Congress on corruption-related charges. However, the opposition is fragmented and will find it difficult to form the necessary coalition needed to impeach him.
- President Vizcarra will find it difficult to pass legislation in the opposition-controlled Congress. However, he will likely find support for pro-business legislation that supports foreign direct investment.
- Peru’s political environment is hindered by its institutions’ lack of capacity and transparency. The political party system is not well established, and bureaucratic processes are inefficient and subject to corruption.
- Labor strikes are broadly peaceful, but environmental activism is strong. Protests against extractive industries are disruptive and are marred by high levels of violence. An escalation of such opposition could cause delays in or suspension of major projects.

Financial System Risk: Moderate

- The Superintendency of Banks, Insurance and Private Pensions is responsible for the supervision of the insurance and banking sectors.
- Peru’s financial performance has strengthened significantly, which has resulted in a decline in poverty rates and significant de-dollarization of the economy. The banking sector is sound, but the IMF recommends increased supervision and enhanced measures against vulnerability.
- The IMF has recommended improving Peru’s financial depth and lowering the high levels of bank concentration to increase competition in the banking sector.